CERTACT PTE. LTD.

v.

TANG SIEW CHOY & ORS.

HIGH COURT, SINGAPORE
CHAO HICK TIN J
[SUIT NO. 451 OF 1991]
3 JULY 1991

CONTRACT: *Employment contract - Breach - Fiduciary duty - Statutory duty - Access to confidential information of employer - Whether trade secrets - Interference with contracts between employers, suppliers and customers - List of names of suppliers and customers - Property of employer - Companies Act [Sing], s. 157(2).*

CIVIL PROCEDURE: *Prohibitory injunction - Use by employee of trade secrets and confidential information of employer - Whether injunction amounts to restraint in trade - Balance of convenience - Adequacy of damages - Serious questions to be tried.*

TORT: *Conspiracy to injure.*

The plaintiffs are a company that deal in various types of industrial equipment for the metal works industry and were the exclusive/non-exclusive distributors for American and British companies.

The first and second defendants, D1 and D2, were former employees of the plaintiffs who had access to confidential information of the plaintiffs' products, policies and marketing strategies. In June 1991, both defendants gave notice of resignation, with the intention of joining the third defendant, D3, a dormant company which D2 and his family owned and controlled.

The plaintiffs alleged that D1 and D2, by their various activities, had been in breach of their contract of employment or fiduciary duty or statutory obligation under s. 157(2) of the Companies Act 1965. The plaintiffs also alleged that the three defendants had unlawfully conspired to cause harm to the plaintiffs and unless restrained they would repeat the wrongful acts, causing the plaintiffs incalculable loss, prejudice and irreparable injury to the plaintiffs' goodwill. The plaintiffs were granted *ex parte* prohibitory interim injunctions together with an Anton Piller order, against the defendants.

The defendants applied to have the prohibitory parts of the injunction (but not the Anton Piller order) discharged. In support of their application, the defendants raised material non-disclosure in the plaintiffs' *ex parte* application, that the restraining order amounted to a restraint in trade, that there was no secret or confidential information and that the scope of the injunction was too vague and wide. The defendants also raised the issues of adequacy of damages and balance of convenience.

Held:

[1] As the plaintiffs had failed to draw the Court's attention to a very material letter, certain paragraphs of the interim injunction which related to D1's period of employment with the plaintiffs were discharged.

[2] The restraining order does not amount to restraint of trade because it merely prohibits the defendants from doing certain very specific but limited acts.

[3] A list of names of suppliers and customers and the individual contracts of the plaintiffs could be trade secrets and confidential information. So could a list of prices negotiated with and quoted to various customers, contents of various agreements, records of sales, requirements of customers.

[4] Even if these information were in fact compiled and recorded by D1 and D2 when they were employed by the plaintiffs, they were still the property of the plaintiffs.

[5] An employee is not at liberty, when he leaves the employment, to take these things away in order to harm his employer or to establish his own business in competition with his former employer. On the evidence, it was clear that the defendants had used the plaintiffs' trade secrets and confidential information for their own personal interest. Therefore, they would continue to do so even after their employment ceased. The restraining interim injunction is therefore justified.

[6] The criteria espoused in *Thomas Marshall v. Guinle* as to the confidential information or trade secrets which the Courts would protect and in *Lansing Linde* as the tests for determining what were trade secrets were satisfied in this case.

[7] Although the tort of conspiracy to injure is well-established in law, whether in the instant case the defendants had committed the tort of conspiracy would have to be established at the trial.

[8] The evidence shows that the plaintiffs are an established company; on the other hand, it had not been shown that D1 and D2 had substantial assets to meet the losses which would be suffered by the plaintiffs. The plaintiffs are therefore fully able to fulfil their undertaking on damages.

[9] The balance of convenience also clearly tilts in favour of the plaintiffs.

[Order accordingly.]

Cases referred to:
Faccenda Chicken Ltd. v. Fowler [1986] 1 All ER 617 ***(cit)***
Thomas Marshall v. Guinle [1978] 3 All ER 193 ***(foll)***
Lansing Linde Ltd. v. Kerr [1991] 1 All ER 418 ***(foll)***
Robb v. Green [1895] 2 QB 315 ***(cit)***
Lonrho Ltd. v. Shell Petroleum Co. Ltd. [1982] AC 173 ***(cons)***
American Cyanamid v. Ethicon Ltd. [1975] 1 All ER 504 ***(foll)***

Legislation referred to:
Companies Act [Sing], s. 157(2)

For the plaintiffs - Tan Tay Sang
For the defendants - Lee Tau Chye

JUDGMENT

Chao Hick Tin J:

The plaintiffs, Certact Pte. Ltd., are a company that deal in various types of industrial equipment. They import goods from overseas and sell to customers in Singapore as well as in other countries in this region. They are the exclusive and non-exclusive importers/ distributors of highly specialised products like machine tools, diamond tools, coolants, abrasives and other component and equipment for the metal works industry.

On an *ex parte* application of the plaintiffs, I granted an interim injunction with an Anton Piller order against the defendants. The defendants applied to have the interim injunction (but not the Anton Piller order) dissolved.

After hearing the parties, I ordered that a substantial part of the interim injunction be continued. I now give my reasons.

At the time of the commencement of the action, Certact were, pursuant to an agreement, the non-exclusive distributors in the region for an American company, Cinciannati Milacron Marketing Company (hereinafter referred to as "Milacron"). The products of Milacron included Cimcool metalworking fluids, grinding wheels and Cimcool equipment. By another agreement dated 24 July 1987, Certact were the exclusive distributors for another American company, Cogsdill Tool Products Inc., of Michigan (Cogsdill) in this region. Cogsdill produced, *inter alia*, tools and components for the metal works industry. Finally through a course of business dealings, Certact were also appointed the exclusive distributors in this region in respect of tools and components produced by an English company, Shefcut Tool and Engineering Ltd., of Sheffield (Shefcut).

The 1st defendant, Tang, became an employee of the plaintiffs in October 1981. He started off as a technical sales executive. In April 1986 he was promoted to the post of sales manager and headed the Industrial Machine Tools & Chemical (IMTC) Department at Certact. Under the terms of his employment, as set out in a letter dated 1 October 1981, Tang was expected to dedicate all his time to the service of Certact and was not to engage in any outside activities contrary to Certact's interest. In addition he was not to divulge to anyone who was not an employee of Certact, any confidential information or matters which concerned Certact's affairs. In his capacity as head of the IMTC department, he was wholly responsible for the direction and planning of IMTC and for the promotion of sales and distribution. He was also required to monitor and maintain close contact and relationship with clients in order to meet and understand their specific or special needs and requirements. Certact said that by virtue of his position, Tang had access to highly confidential information and/or trade secrets.

Certact contended that implicit from his contract of employment:

(a) Tang should not, so long as the contract of employment subsisted, misuse any information confidential to Certact or disclose or divulge such information to any third party;

(b) Tang should not, following the termination of his employment with Certact, disclose or divulge or unlawfully use any trade secrets or other confidential information of Certact.

The 2nd defendant, Chua, first became an employee of Certact on appointment as a sales engineer by a letter dated 9 February 1987. As was the case with Tang, Chua was also, under his terms of appointment, required to dedicate full time to Certact, not to engage in any activity contrary to the interest of Certact and not to divulge confidential information of Certact to any person not employed by Certact. He worked under the direct supervision of Tang. Certact alleged that as a result he was in a position to and did acquire knowledge of the products, policies and marketing strategies of IMTC in the promotion and expansion of the sale and distribution of the products handled by Certact. Certact contended that as was the case with Tang, it was an implied term of his contract of employment that Chua should not, following the termination of his employment, disclose or divulge or unlawfully use any trade secrets or other confidential information of Certact.

By separate letters dated 28 January 1991, Tang and Chua gave notice of resignation to Certact indicating that they were leaving Certact on 28 February 1991 and 27 February 1991 respectively. Both Tang and Chua intended to join the 3rd defendant, Axiom Enterprises

Pte. Ltd. (Axiom). The 1st defendant, however, offered to remain in the service of Certact until 31 March 1991 or 30 April 1991, subject to Certact's acceptance. There appeared to be a conversation between the parties on Tang's offer to extend his service for a month or two, though what precisely transpired was a matter of some dispute. According to one Max Lauchli, a director of the plaintiffs, he said that on or about 11 February 1991 he spoke to Tang in the office and told the latter that he would let the latter know by the end of February 1991 whether Certact would require his services after 28 February 1991. In any case what was clear was that by a letter dated 27 February 1991 written by M/s. Lee & Lee on behalf of Certact, Certact accepted Tang's offer to remain in service until 31 March 1991. However, the letter was only received by Tang at the office on 28 February 1991 at 4.00 pm. Apparently on 27 February 1991 M/s. Lee & Lee attempted to serve the letter on Tang by local urgent mail at his last known address but it was returned undelivered.

The 3rd defendant, Axiom, is an exempt private limited company, having been incorporated in July 1980 under the name Hon Yong Engineering Pte. Ltd. The 3rd defendant changed its name to the present style on 15 December 1990. Tang has been a director of Axiom since its incorporation. Axiom had remained dormant until late 1990. There was a dispute as to whether Tang had informed Certact of his involvement in Axiom. Tang holds 12,000 shares in Axiom and, except for one shareholder, the other shareholders of Axiom are all his siblings.

The plaintiffs alleged that by virtue of the following acts, Tang and/or Chua had been in breach of their contracts of employment or fiduciary duty or statutory obligations (s. 157(2) of the Companies Act):

(i) While still in the employment of Certact, Tang actively persuaded Milacron to appoint himself and/or Axiom as Milacron's distributors in place of Certact. This led Milacron to decide not to renew the contract with Certact which was due to expire in June 1991 and to even terminate the existing agreement with Certact earlier by giving 3-month notice as required under the agreement.

(ii) In late 1990 or early 1991, Tang and/or Chua approached Cogsdill and/or Shefcut with a view to inducing them to appoint Tang and/or Chua or Axiom as the distributors of their products in place of Certact. As a result Cogsdill by a letter dated 30 January 1991 served a notice of termination of the distribution agreement which was to take effect from 2 March 1991. Cogsdill also stated that they would appoint Axiom as the distributors of their products. Shefcut had also indicated that they were considering appointing Axiom as their agents.

(iv) Tang and/or Chua had also approached two other principals of Certact, that is, Kyoto Diamond Industrial Co. Ltd. and Filtration Systems Products Inc., to persuade them to change distributorships.

Certact said that unless restrained, Tang had every intention to approach Certact's other suppliers to induce them to appoint Tang, Chua and/or Axiom as the distributors of their products. Certact also complained that Tang had also deliberately allowed the stock position of the Milacron products to reach unprecedented low levels. Instead Tang, and/or Chua, while still in the employment of Certact, placed orders with Milacron on behalf of Axiom and had in fact sold Milacrons products to a customer of Certact, that is, Matsushita Refrigeration Industries (S) Pte. Ltd.

Certact further alleged that, while still in the employment of Certact, Tang and Chua had divulged or unlawfully made use of confidential information and/or trade secrets which were entrusted to them as the employees of Certact to promote their own interests, including the interests of Axiom. The aim of Tang and Chua was to direct business away from Certact in favour of Axiom. The confidential information and/or trade secrets referred to were these:

In relation to the agreements with Milacron Cogsdill and Shefcut and other suppliers.

(i) list of prices negotiated with and quoted by the suppliers;

(ii) various confidential correspondence, including purchase orders, invoices, etc.

In relation to Certact's business generally

(i) list of names and addresses of suppliers and their individual contacts;

(ii) various distributorship agreements and/or contracts with the suppliers;

(iii) list of names and addresses of customers and their individual contacts;

(iv) list of prices negotiated with and quoted to various customers of Certact in Singapore and in the region;

(v) copies of stock cards;

(vi) copies of invoices;

(vii) confidential information relating to the quantity and type of goods ordered and the special requirements of the customers;

(viii) various confidential correspondence.

Certact also alleged that the three defendants had unlawfully conspired in order to cause harm to Certact and unless restrained they would repeat the wrongful acts, which would cause incalculable loss, damage and prejudice and irreparable injury to Certact. The actions of the defendants would further gravely affect the goodwill of Certact which would be incapable to be compensated by the defendants.

On 6 March 1991, Certact made an *ex parte* application for interim reliefs. Besides praying for certain prohibitory injunctions, Certact also asked for an Anton Piller order as Certact believed that the defendants had in their possession articles, documents and materials which would be evidence that Tang and Chua had acted in breach of their obligations to Certact whilst still in the employment of Certact and that they had perpetrated and would continue to perpetrate the unlawful conspiracy. Certact identified Axiom's place of business at Block 1, Wholesale Centre #03-04, Pasir Panjang Road, Singapore 0511 and the residences of Tang and Chua, as the premises on which the said articles, documents and materials might be found. Certact said that unless an Anton Piller order was granted the defendants might destroy, deface, obliterate or part with possession of the articles, documents or put them out of reach of Certact.

Accordingly, on 7 March 1991 I granted an interim order to these effect:

(i) As against Tang, that he would not (a) while in the employment of Certact, approach suppliers to induce them to appoint the defendants as distributors in place of Certact or to promote the interest of Axiom and (b) after the termination of his employment with Certact, divulge or make use of the confidential information or trade secrets acquired by him in the course of employment with Certact (para. 1(i) and (ii) of the interim order).

(ii) As against Chua, that he would not divulge or make use of the confidential information or trade secrets acquired by him in the course of employment with Certact (para. 2(i) of the interim order).

(iii) As against Axiom, that it would not divulge or make use of the confidential information or trade secrets of Certact acquired by it through Tang and/or Chua (para. 3(i) of the interim order) (the confidential information and/or trade secrets referred to in (i) to (iii) above were identified).

(iv) As against all the three defendants, they were restrained from:

(a) Approaching the suppliers of the plaintiffs with a view to inducing them to appoint the first and/or second and/or third defendants or otherwise whosoever as the distributor of their products in place of the plaintiffs;

(b) Placing or soliciting orders for the supply of goods from or otherwise dealing with any of the plaintiffs' suppliers for whom the plaintiffs are that suppliers' exclusive agent/distributor;

(c) Soliciting orders from or otherwise dealing with any customer of the plaintiffs with whom the plaintiffs have a contractual arrangement/agreement for the supply of the goods by the plaintiffs to that customer which could interfere with or otherwise affect the rights and obligations of the plaintiffs and/or that customer arising out of the said contractual arrangement/agreement (para. 4(i)(a), (b) & (c) of the interim order).

(v) an Anton Piller order (the defendants had not questioned the propriety of this part of the order nor applied to have it discharged.)

By two summonses-in-chambers, the defendants applied to have the prohibitory parts of the interim order discharged. In his affidavit, Tang explained that he was really the one who built the IMTC department to what it was when he left Certact. As a result he had established very strong personal ties with the suppliers and customers of Certact. In August 1990 he was sent by Certact to Cincinnati for a four week familiarization tour of Milacron and its products. Tang admitted that during the trip he did mention to the staff of Milacron (in a casual talk with one Mr. Huddleston) that he was considering leaving the employment of Certact. As regards his offer to extend his employment with Certact for a month or two, he said that he had raised the matter with Mr. Lauchli on several occasions whether the company would accept his offer and on each occasion he did not receive any firm indication. As his last day of service was on 28 February 1991 he had to make plans to leave. It was only on 28 February 1991 at 4.00 pm that Tang received Certact's solicitors' letter of 27 February 1991 accepting Tang's offer to remain in the employment until 31 March 1991. Tang said that because of the unreasonable delay on Certact's part in accepting the offer, the offer had lapsed before acceptance. Tang's solicitors replied accordingly on 1 March 1991.

At the *inter partes* hearing before me the solicitor for the defendants submitted that the prohibitory injunctions should be discharged on these grounds:

(i) There was material non-disclosure in the affidavit in support of the *ex parte* application.

(ii) The interim order amounted to an order in restraint of trade and was depriving Tang and Chua of an opportunity of making a livelihood.

(iii) There was no trade secrets or confidential information.

(iv) The scope of the injunctions was too vague and too wide.

(v) The plaintiffs would not be able to fulfill their undertaking on damages.

(vi) Balance of convenience.

I shall now deal with each of the grounds in turn. On non-disclosure, the main contention was that the plaintiffs had failed to draw the Court's attention to the defendants' solicitors' letter of 1 March 1991 wherein the defendants' solicitors explained why the acceptance by Certact on 28 February 1991 of Tang's offer to stay on until 31 March 1991 was too late. While the plaintiffs did exhibit this letter in their affidavit it was in relation to the statement that the defendants had engaged M/s. Lee Brothers to act for them (see para. 49: the last

para in a 25-page affidavit of Max Lauchli with 13 exhibits). This was certainly a very material letter and I seriously doubted that I would have granted that part of the order which was based on the premise that Tang was to be in the employment of Certact until the end of March 1991 (para. 1(i)(a) - (f) of the order of 7 March 1991) if what was stated in the letter was drawn to my attention. I accordingly discharged para. 1(i)(a) - (f) of the interim order.

Turning to the second ground - restraint of trade - it is important to bear in mind the exact scope of the remaining part of the order which I have ordered should be continued. It does not forbid the defendants in dealing with machine tools and other equipment used in the metal industry. It only restrains the defendants from divulging or making use of confidential information and trade secrets which Tang and Chua had acquired in the course of their employment and restrains the defendants from interfering with existing contractual arrangements between Certact and their suppliers and customers. I was aware and was also informed when I made the *ex parte* order that there was no restraint of trade clause in the respective contracts of employment of Tang and Chua; and that there was nothing in their contracts of employment which prohibited them from starting a business in the same trade as Certact or from being employed by another who was engaged in a similar trade. But I did not think that the interim injunction, bearing in mind its limited scope, truly amounts to a restraint of trade. It only prohibits the defendants from doing certain very specific but limited acts. Neither is it vague nor too wide.

I move next to consider the argument that the information in the possession of Tang and Chua could not be considered to be confidential or trade secrets. To my mind it was clear that a list containing the names of suppliers and customers of Certact and the individual contacts thereof could be trade secrets or confidential information. So too could be a list of prices negotiated with and quoted to various customers of Certact; the contents of the various agreements entered into by Certact with their suppliers; and the records relating to the quantity and type of goods ordered and the special requirements of the customers. Trade secrets are not limited to manufacturing processes only. See *Faccenda Chicken Ltd. v. Fowler* [1986] 1 All ER 617 at 628; *Thomas Marshall v. Guinle* [1978] 3 All ER 193 at 209 and 210; and *Lansing Linde Ltd. v. Kerr* [1991] 1 All ER 418 at 425-6. While it might well be that all these were in fact compiled or recorded by Tang and/or Chua when they were in the employment of Certact, but they are no less the property of the employer. And an employee is not at liberty when he leaves that employment to take those things away in order to harm his employer or to help him establish his own business in competition with his former employer. This the employee is not entitled to do and will be restrained from so doing: see *Robb v. Green* [1895] 2 QB 315. I accepted the argument that an employee is entitled to set up business in competition with his former employer after leaving his employment and to use all the skills and knowledge which he has honestly acquired during his employment. But here what Tang and Chua had done was not only that; there was clear evidence before me that Tang and/or Chua took with them the plaintiffs' price list, customers' list and their contacts, a copy of the export sales distribution agreement dated 15 November 1983 with Cogsdill and correspondence of Certact. On the evidence I did not think it could be disputed that the defendants had used trade secrets and/or confidential information of Certact for their own personal interest. Even while they were in the employment of Certact they had used such information; all the more so they would continue to do that after their employment ceased unless restrained. Thus the justification for an interim injunction.

In *Thomas Marshall v. Guinle*, Megarry VC suggested that there were four elements in the identifying of confidential information or trade secrets which the Courts would protect. These were (i) the owner's belief that the release of the information would be injurious to him or

advantageous to his rivals; (ii) the owner's belief in the confidentiality of the information; (iii) the reasonableness of these beliefs; and (iv) the assessment of the information in the light of the usage and practices of the particular industry or trade. In *Lansing Linde Ltd.*, Staughton LJ identified (at p. 425) three tests in determining what were trade secrets. One, the information must be used in a trade or business. Two, the information if disclosed to a competitioner would be liable to cause real or significant harm to the owner of that information. Three, the owner must limit the dissemination of the information or at least not encourage or permit widespread publication. In relation to the facts of the present case, the criteria expounded in both these cases seemed to me to have been satisfied.

Further, the plaintiffs' case was based not just on breach of an implied term to maintain confidentiality of trade secrets or confidential information but also on conspiracy - the conspiracy to injure. This tort is well established under the law and I will cite the following passage of Lord Diplock in *Lonrho Ltd. v. Shell Petroleum* Co. Ltd. [1982] AC 173 at 189:

> The civil tort of conspiracy to injure the plaintiff's commercial interests where that is the predominant purpose of the agreement between the defendants' and of the acts done in execution of it which caused damage to the plaintiff, must I think be accepted by this House as too well-established to be discarded however anamalous it may seem today. It was applied by this House 80 years ago in *Quinn v. Leathem* [1901] AC 495 and accepted as good law in the *Crofter* case [1942] AC 435.

The essentials of the tort of conspiracy are succinctly set out in Bullen & Leake & Jacobs: *Precedents of Pleadings* (13th Edn.), at pp. 220-221 as follows:

> Conspiracy is the agreement of two or more to do an unlawful act, or to do a lawful act by unlawful means. Historically, there are clearly two kinds of conspiracy to injure, one in which the acts which the conspirators conspire to carry out or the means involved are *per se* unlawful, for example, involve in the commission of a crime or tort (conspiracy A), and the other where the conspiracy does not involve the commission of any specific unlawful act, but is a conspiracy where the sole or predominant purpose is to injure another party (conspiracy B); and in the case of conspiracy B conduct which would not be tortious if committed by an individual alone becomes tortious by virtue of the combination with the necessary purpose. ... Lord Diplock, giving the decision in (*Lonrho v. Shell Petroleum* [1982] AC 173] is now understood to have decided that for even conspiracy A to be actionable the defendants' sole or predominant purpose needs to be shown to be injury to the plaintiffs (that is, as opposed to the forwarding of the interests of those who enter into the conspiracy) ...

The plaintiffs submitted that the defendants had conspired to use unlawful means with the predominant purpose of causing injury to the plaintiffs by wrongfully causing, persuading, procuring or inducing the suppliers or customers of the plaintiffs to terminate existing agreements or to cease to deal with the plaintiffs; thus, the need for para. 4(i)(a), (b) and (c) of the interim order. The plaintiffs stressed that nothing in the order precluded the defendants from carrying on business in lawful competition with Certact by distributing products of suppliers they had acquired or would acquire legitimately or in dealing with any customers with whom the plaintiffs had no contractual arrangements or dealings. Whether the defendants had committed the tort of conspiracy would have to be established at the trial. It seemed to me that if, as appeared to be the case here, that there was more than one purpose which actuated the combination, liability would depend on ascertaining the predominant purpose. That would again be a question of fact to be ascertained at the trial.

The next point raised by the defendants was that the plaintiffs would not be able to fulfill their undertaking on damages. The defendants said that Certact are owned by foreigners and do not have substantial assets within the jurisdiction. However, Certact is incorporated

in Singapore. They are an established company with an annual turnover of about $4 million in 1989 and about $3.5 million in 1990. They have a paid up capital of $500,000. In contrast, Axiom has only a paid up capital of $108,000. It had remained dormant until late last year and had been losing money. As regards Tang and Chua, it had not been shown that they had substantial assets to meet the losses which would be suffered by Certact. All that Tang could say in his affidavit of 2 April 1991 was that:

> we would have to raise if called upon to pay damages through whatever means and we could not afford to be made bankrupts.

I did not think that there was sufficient merit in this ground.

The final submission related to the question of balance of convenience. Here one finds that the plaintiffs are an established concern and have been dealing with the specialized equipment for more than ten years and, on the other hand, the defendants are only about to embark on the same line of business as that of the plaintiffs. In my view the balance of convenience clearly tilts in favour of the plaintiffs.

In the circumstances of this case, I was of the view that the conditions laid down in *American Cyanamid v. Ethicon Ltd.* [1975] 1 All ER 504 had been satisfied by the plaintiffs. Firstly, there were certainly serious issues to be tried. I was satisfied that the claim was not frivolous or vexatious. I did not think this was clearly a case where the plaintiffs had no real prospect of success in obtaining a permanent injunction. Second, the plaintiffs would be irreparably damaged unless the interim injunction against the defendants should continue. Thirdly, the balance of convenience was in the plaintiffs' favour.

Also found at [1991] 3 CLJ 2269